

The background features a large, stylized illustration. On the right, a circular slice of citrus fruit, possibly an orange or grapefruit, is shown in shades of orange and red. To its left and below are various floral and leaf motifs in muted green, yellow, and orange tones. The overall style is clean and modern.

The James Madison Council
of the Library of Congress

— ● —
Annual Report

2006

2006
Annual Report



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* Names of Jeffersonians, Madison Council members who have given \$1 million or more



2006
Financial Statements

Statement of Financial Position

James Madison National Council Fund

September 30, 2006

ASSETS	
Cash	\$ 102,968
Investments: (Note 2)	
U.S. Treasury Market Based Securities	3,962,714
Growth and Income Pool	795,761
Total investments	4,758,475
Receivables:	
Pledges (Note 3)	697,574
Accrued interest	12,527
Accounts	135
Total receivables	710,236
Total assets	\$ 5,571,679
LIABILITIES AND NET ASSETS	
Accounts payable	\$ 340,136
Accrued payroll and annual leave	66,042
Total liabilities	406,178
Net assets (Note 4)	
Unrestricted-Undesignated	2,179,420
Unrestricted-Council designated for projects	112,891
Temporarily donor restricted for projects	2,873,190
Total net assets	5,165,501
Total liabilities and net assets	\$ 5,571,679

These financial statements should be read only in connection with the accompanying notes to financial statements.

Statement of Activities

James Madison National Council Fund
For the Fiscal Year Ended
September 30, 2006

CHANGES IN UNRESTRICTED NET ASSETS

Revenues

Membership contributions	\$ 890,862
Miscellaneous gifts	64,978
Temporarily restricted donations	139,300
Interest	168,079
Net unrealized gain and realized gain on investments (Note 2)	67,771
Imputed financing for cost subsidies (Note 5)	33,010
Royalties	5,790
Net assets released from restrictions	<u>523,185</u>
Total revenues	<u>1,892,975</u>

Expenses (see Schedule B)

Personnel costs	745,504
Travel and transportation and subsistence/support persons	42,781
Other services	75,076
Books and library materials	344,716
Exhibit opening events, receptions, and Madison Council meetings	195,530
Professional and consultant services	367,306
Office supplies, printing and materials	<u>1,242</u>
Total expenses	<u>1,772,155</u>

Other changes

Transfer from other funds (Note 8)	<u>(110,228)</u>
Increase in unrestricted net assets	<u>231,048</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	119,508
Net assets released from restrictions	<u>(523,185)</u>
Decrease in temporarily restricted net assets	<u>(403,677)</u>
Decrease in net assets	<u>(172,629)</u>
Net assets at beginning of year	<u>5,338,130</u>
Net assets at end of year	<u>\$ 5,165,501</u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

Statement of Cash Flows

James Madison National Council Fund
For the Fiscal Year Ended
September 30, 2006

Cash flows from operating activities:

Donations Received	\$ 1,766,322
Interest Received	147,334
Cash paid to others	(719,385)
Cash paid to employees	(733,623)
Transfer from other funds	<u>110,228</u>
Net cash provided by operating activities	<u>\$ 570,876</u>

Cash flows from investing activities:

Investment in U.S. Treasury Market Based Securities	\$ (2,386,487)
Investment in U.S. Treasury Permanent Loan	0
Redemption of Investment in U.S. Treasury Market Based Securities	1,886,776
Redemption of Investment in U.S. Treasury Permanent Loan	<u>0</u>
Net cash used by investing activities	<u>\$ (499,711)</u>

Net Increase in Cash **71,165**

Cash at beginning of year **31,803**

Cash at end of year **\$ 102,968**

Reconciliation of Changes in Net Assets to Net Cash From Operating Activities

Change in Net Assets **\$ (172,629)**

Adjustments to reconcile changes in net assets to net cash provided from operating activities

Non-cash gain on mutual fund investments	(67,771)
Decrease in investment discount	(16,800)
Decrease in pledges receivable	545,883
Increase in accrued interest receivables	(3,945)
Decrease in accrued payroll and annual leave	(21,130)
Increase in accounts receivable	(105)
Increase in accounts payable	<u>307,372</u>
Total Adjustments	<u>743,505</u>

Net Cash from Operating Activities **\$ 570,876**

These financial statements should be read only in connection with the accompanying notes to financial statements.

Notes to Financial Statements

James Madison National Council Fund

September 30, 2006

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

A. Description of Fund

The James Madison National Council Fund (JMNC Fund) was initiated by the Librarian of Congress, accepted through a poll vote by the Library of Congress Trust Fund Board in July 1989 and reaffirmed October 7, 1989. A gift of \$100,000 from Robert Gwinn, Chairman of the Board of Encyclopedia Britannica, established the Fund. The JMNC Fund is reported in the Library of Congress gift and trust funds.

The James Madison National Council is an advisory board of business people and philanthropists that contribute ideas, expertise, and financial backing to support the Library's collections and programs. The Council is open to persons from the private sector interested in advancing the Library's outreach mission. There are 93 members of the Council.

Significant accounting policies followed by the JMNC Fund are presented below.

B. Basis of Accounting and Presentation

The Fund's financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles.

The Fund adopted financial reporting standards applicable to not-for-profit organizations. The financial statements are prepared in accordance with Financial Accounting Standards No. 117, and recognizes net assets based on the existence of applicable restrictions limiting their use.

Temporarily restricted net assets result from donor-imposed restrictions that permit the Fund to use or expend the assets after the restriction has been satisfied. When a donor-imposed restriction is satisfied, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Unrestricted net assets result from the receipt of unrestricted contributions, the expiration of donor-imposed restrictions on contributions, and changes in other assets and liabilities. These assets are available to the Fund for use in support of current and future operations. The Library of Congress provides support services to the James Madison National Council. The cost of these services are, by their nature, indirect, difficult to quantify, and financed with appropriated funds of the Library. To the extent that these services are provided, they are not considered operating expenses of the James Madison National Council.

C. Use of Estimates

The preparation of the Fund's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

D. Contributions and Revenue Recognition

The Fund records as contribution revenue amounts received in the form of cash, promises or pledges to give. Unconditional promises or pledges to give are recognized as a contribution receivable. Multi-year pledges or promises due over a period of time are discounted to their present value, based upon prevailing interest rates, and recognized in the period of initial pledge.

E. Income Tax

The JMNC Fund operates for the benefit of the Library of Congress, which is an instrument of the United States and, as such, is not subject to income tax.

F. Investment Policy

The Library of Congress Trust Fund Board determines the investment policy for the Library's trust funds. The policy provides three options for investment of the JMNC Fund funds:

- a permanent loan with the U.S. Treasury
- a pool of U.S. Treasury market-based securities
- a private investment pool consisting of five stock funds and one money market fund. The funds recommended by the Library of Congress Trust Fund Board's investment committee and approved by the Board are:
 - Vanguard Money Market Prime Fund
 - Vanguard Institutional Index Fund
 - Vanguard Capital Opportunity Fund
 - Fidelity Blue Chip Growth Fund
 - Fidelity Capitol Appreciation Fund
 - Fidelity Growth Company Fund
 - Fidelity Dividend Growth Fund

Investments in U.S. market-based securities are stated at cost net of any unamortized premium or discount, which approximates market value at September 30, 2006. The permanent loan is an interest bearing par value investment which equals the market value. Stock and money market mutual funds are stated at current market value.



NOTE 2 – INVESTMENTS

A. U. S. Treasury

An act of Congress approved March 3, 1925, and subsequently amended, permits up to \$10 million of trust funds to be invested with the United States Treasury as a perpetual loan, at a floating interest rate, adjusted monthly, but no less than four percent per annum. Other investments with U.S. Treasury were as follows:

Investment	Non-Marketable, Market Based Government Securities
Par	\$ 3,998,114
Unamortized Premium	\$ (35)
Unamortized	\$ (35,365)
Amortized Cost	\$ 3,962,714

B. Mutual Funds

The JMNC Fund invested \$500,000 in the growth and income pool (non-Treasury mutual fund investments) in 1996. Market value of the growth and income pool as of September 30, 2006, totaled \$795,761.

The net gain on investments of \$67,771 consists of the following: \$11,755 realized gain of mutual fund capital gains distributions; \$100 realized gain of money market dividends, and \$55,916 unrealized gain on the growth and income pool.

NOTE 3 – PLEDGES

Contributions of unconditional promises to give (pledges) to the JMNC Fund are recognized as temporarily restricted revenue in the period received. They are recorded at their present value using a market discount rate. Accretion of the discount in subsequent years is also recorded as contribution revenue. Outstanding pledges of \$1,064,611 at September 30, 2006, were discounted through fiscal year 2016 at a market discount rate and are included in the statement of financial position at their discounted present value of \$697,574. The amounts due in future years at their current discounted value are: \$61,574 in fiscal year 2007; \$636,000 in fiscal year 2016.

NOTE 4 – NET ASSETS

The JMNC Net Assets of \$5,165,501 are classified as Unrestricted-Undesignated, Unrestricted-Council Designated for Projects or Temporarily Donor Restricted for Projects. Of this total amount, \$2,179,420 is classified as Unrestricted-Undesignated. The balance of \$2,986,081 consisting of \$112,891 (Unrestricted-Council Designated for Projects) and \$2,873,190 (Temporarily Donor Restricted for Projects) is earmarked for initiatives such as the

rebuilding of Jefferson's library, the purchase of overseas rare publications, international digitization of the Library's collections, the publication of illustrated guides for the special collections, seed money for a major collection and an amount that is restricted to be used at the discretion of the Librarian of Congress for projects that arise that do not have funding or the time horizon to raise money for the project.

Ending Net Assets includes undelivered orders of \$474,401 which are funds that have been obligated for goods and services not yet received for JMNC Fund operations and designated projects.

NOTE 5 – IMPUTED FINANCING FOR COST SUBSIDIES

An adjustment of \$33,010 was recorded as an imputed financing source and a corresponding expense in the accompanying financial statements. This adjustment recognizes the full cost of pensions and other health and life insurance benefits during the employees' active years of service.

NOTE 6 – EXPENSES BY FUNCTIONAL CLASSIFICATION

As permitted by SFAS No. 117, the Library has elected to present its operating expenses by natural classification in its Statements of Activities for the period ending September 30, 2006. The functional breakdown of these expenses is as follows (see Schedule B):

Fiscal Year 2006 Expenses by Functional Classification	Amount
JMNC Fund Projects and Programs	\$ 212,664
Members' Specific Projects	523,185
Supporting Activities—Fundraising	1,036,306
Total Expenses	<u>\$ 1,772,155</u>

NOTE 7 – RETIREMENT PLANS

Employees of JMNC Fund participate in two different retirement plans. Civil Service employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS is the system in effect for most employees hired after December 31, 1983.

In fiscal year 2006, the JMNC Fund paid approximately \$53,169 to fund retirement benefits, excluding FICA taxes.

NOTE 8 – TRANSFER FROM OTHER FUNDS

The JMNC fund received \$110,228 from the Mariinsky Theater Project Gift Fund, which was the remaining balance from the original fiscal year 2001 gift.

This information is an integral part of the accompanying financial statements.

Independent Auditor's Report



To the Steering Committee James Madison National Council Fund

We have audited the accompanying statement of financial position of the James Madison National Council Fund (the Fund) as of September 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

SUMMARY

As stated in our opinion on the financial statements, we have concluded that the Fund's financial statements for the year ended September 30, 2006, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting disclosed no material weaknesses.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

The following sections present our opinion on the Fund's financial statements, our consideration of the Fund's internal control over financial reporting, our tests of the Fund's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying statement of financial position of the Fund as of September 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing*



OFFICE OF THE INSPECTOR GENERAL

March 13, 2007

To the Steering Committee
James Madison National Council Fund

We contracted with the independent public accounting firm of Kearney & Company to audit the Fund's financial statements. The firm is responsible for the attached auditor's report and the opinion and conclusions expressed in that report.

We reviewed Kearney & Company's report and related documentation. Our review was not intended to enable us to express, and we do not express, an opinion on the Fund's financial statements, conclusions on internal control, or compliance with laws and regulations. Our review disclosed no instances in which Kearney & Company did not materially comply with U.S. generally accepted government auditing standards.

Karl W. Schornagel
Inspector General

Standards issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2006, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information contained in Schedules



A and B is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Fund's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted no matters involving internal control and its operations that we consider to be material weaknesses.

The Fund is a component of the Library of Congress' (the Library) consolidated financial statements. In prior years, we reported on weaknesses we identified in the Library's General

Support System (GSS) and Entity-Wide Security Program, which we described as reportable conditions. Specifically, we noted that the Library had not fully implemented an Entity-Wide Security Program and in addition we identified control weaknesses in the Library's GSS which affected the availability, integrity, and confidentiality of all applications and data residing in the processing environment. During fiscal year 2006, the Library completed the implementation of enhancements addressing the above weaknesses and therefore Information Technology (IT) internal control weaknesses are no longer considered reportable conditions. IT internal controls exist in a dynamic environment where new risks are constantly evolving. Consequently, continued management commitment to an effective IT internal control environment will be essential to ensure that the Library's financial and sensitive information will be adequately protected in this new environment.

COMPLIANCE AND OTHER MATTERS

Management of the Fund is responsible for complying with laws and regulations applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 06-03. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Fund.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Steering Committee, management, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

January 23, 2007
Alexandria, Virginia

Supplemental Information

James Madison National Council Fund



SCHEDULE A

Schedule of Net Assets Available for Designation

Total Net Assets	\$ 5,165,501
Net assets restricted by donors for projects	(2,873,190)
Net assets designated by the Council for projects	<u>(112,891)</u>
Total restricted or designated net assets	<u>(2,986,081)</u>
Net Assets Available for Designation	<u>\$ 2,179,420</u>

SCHEDULE B

Schedule of Expenditures

	Fund Projects and Programs	Members' Specific Projects	Supporting Activities— Fundraising	Total
Personnel costs	\$ (29)	\$ 143,319	\$ 602,214	\$ 745,504
Travel and transportation and subsistence/support persons	0	0	42,781	42,781
Other services	10,000	30,118	34,958	75,076
Books and library materials	0	344,716	0	344,716
Exhibit Opening Events, Receptions, and Madison Council Meetings	0	5,032	190,498	195,530
Professional and consultant services	202,693	0	164,613	367,306
Office supplies, printing and materials	<u>0</u>	<u>0</u>	<u>1,242</u>	<u>1,242</u>
Totals	<u>\$212,664</u>	<u>\$523,185</u>	<u>\$ 1,036,306</u>	<u>\$ 1,772,155</u>

